Partnership Fund JSC

Separate Financial Statements
for the year ended 31 December 2018

Contents

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Independent Auditors' Report

To the Supervisory Board
Partnership Fund JSC

Opinion

We have audited the separate financial statements of Partnership Fund JSC (the "Fund"), which comprise the separate statement of financial position as at 31 December 2018, the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the unconsolidated financial position of the Fund as at 31 December 2018, and its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), together with the ethical requirements that are relevant to our audit of the separate financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement of Management Report

Management is responsible for the Management Report. Our opinion on the separate financial statements does not cover the Management Report.

In connection with our audit of the separate financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the Management Report is materially inconsistent with the separate financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

We do not express any form of assurance conclusion on the Management Report. We have read the Management Report and, based on the work we have performed, we conclude that the Management Report:

— is consistent with the separate financial statements and does not contain material misstatement;
— contains the information that is required by and is compliant with the Law of Georgia on Accounting, Reporting and Auditing.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

KPMG Georgia LLC, a company incorporated under the Laws of Georgia, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

In preparing the separate financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditors' report is:

Karen Safaryan

KPMG Georgia LLC
17 January 2020

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’000 GEL	**Note**	**2018**	**2017 ***
Assets			
Property, plant and equipment	8	52,631	28,173
Investments in subsidiaries	9	1,480,097	2,133,266
Investments in equity accounted investees	10	112,726	70,498
Loans receivable	11	35,254	6,581
Non-current assets		**1,680,708**	**2,238,518**
Loans receivable	11	8,235	1,661
Dividend receivable		3,234	-
Current tax assets		379	884
Cash and cash equivalents	12	93,583	255,159
Current assets		**105,431**	**257,704**
Total assets		**1,786,139**	**2,496,222**
Equity			
Share capital		100,000	100,000
Owner contributions		2,663,531	2,592,067
Accumulated deficit		(1,256,224)	(575,294)
Total equity		**1,507,307**	**2,116,773**
Liabilities			
Loans and borrowings	14	34,205	255,668
Non-current liabilities		**34,205**	**255,668**
Loans and borrowings	14	239,220	120,899
Other liabilities		5,407	2,882
Current liabilities		**244,627**	**123,781**
Total liabilities		**278,832**	**379,449**
Total equity and liabilities		**1,786,139**	**2,496,222**

*The Fund has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 5.

The separate statement of financial position is to be read in conjunction with the notes to, and forming part of, the separate financial statements set out on pages 9 to 44.

'000 GEL	Note	2018	2017*
Investment income			
Income from dividends	6	80,377	27,337
Share of profit of equity accounted investees (net of income tax)		(500)	3,995
Other investment income		7,632	-
Total investment income		**87,509**	**31,332**
Operating expenses			
Wages and other employee benefits		(4,275)	(4,151)
Depreciation and amortization		(714)	(611)
Impairment loss on investment in subsidiaries	9	(722,788)	(461,414)
Impairment loss on loans receivable	16(c)(ii)	(14,415)	-
Other operating expenses		(2,268)	(2,369)
Other income		425	-
Results from operating activities		**(656,526)**	**(437,213)**
Finance income	7	10,714	19,325
Finance costs	7	(33,871)	(32,282)
Net finance costs		**(23,157)**	**(12,957)**
Loss before income tax		**(679,683)**	**(450,170)**
Income tax expense		(1,247)	-
Loss and total comprehensive loss for the year		**(680,930)**	**(450,170)**

These separate financial statements were approved by management on 17 January 2020 and were signed on its behalf by:

David Saganelidze
Chief Executive Officer

Giorgi Tsimakuridze
Chief Financial Officer

*The Fund has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 5.

The separate statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 44.

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’000 GEL	**Share capital**	**Owner contributions**	**Accumulated deficit**	**Total equity**
Balance at 1 January 2017 (unaudited)	100,000	2,538,989	(114,823)	2,524,166
Total comprehensive loss				
Loss for the year	-	-	(450,170)	(450,170)
Transactions with owners, recorded directly in equity				
Distributions of non-cash assets (see note 13(c))	-	-	(10,301)	(10,301)
Owner contributions (see note 13(b))	-	53,078	-	53,078
Balance at 31 December 2017	**100,000**	**2,592,067**	**(575,294)**	**2,116,773**
Balance at 1 January 2018	100,000	2,592,067	(575,294)	2,116,773
Total comprehensive loss				
Loss for the year	-	-	(680,930)	(680,930)
Transactions with owners, recorded directly in equity				
Owner contributions (see note 13(b))	-	71,464	-	71,464
Balance at 31 December 2018	**100,000**	**2,663,531**	**(1,256,224)**	**1,507,307**

*The Fund has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 5.

The separate statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 44.

’000 GEL	Note	2018	2017*
Cash flows from operating activities			
Loss before income tax		(680,930)	(450,170)
Adjustments for:			
Income from dividends		(80,377)	(27,337)
Share of profit of equity accounted investees (net of income tax)		500	(3,995)
Other investment income		(7,632)	-
Depreciation and amortisation		714	611
Net finance costs		23,157	12,957
Impairment loss on investments in subsidiaries		722,788	461,414
Impairment loss on loans receivable		14,415	-
		(7,365)	**(6,520)**
Changes in:			
Other liabilities		2,525	2,882
Cash flows used in operations before income taxes and interest paid		**(4,840)**	**(3,638)**
Interest paid		(30,502)	(28,886)
Net cash used in operating activities		**(35,342)**	**(32,524)**
Cash flows from investing activities			
Dividends received		77,142	32,218
Acquisition of property, plant and equipment		(22,414)	-
Interest received		2,476	11,348
Repayment of loans issued		3,172	28,383
Issue of loans		(48,990)	-
Increase of investments in subsidiaries		(15,276)	(44,290)
Decrease of investments in subsidiaries		-	2,194
Increase of investments in equity accounted investees		(31,501)	(15,994)
Decrease of investments in equity accounted investees		16,083	2,111
Net cash (used in) from investing activities		**(19,308)**	**15,970**
Cash flows from financing activities			
Proceeds from borrowings		-	10,883
Repayment of borrowings		(113,878)	(48,239)
Contribution to share capital		1,904	38,540
Net cash (used in) from financing activities		**(111,974)**	**1,184**
Net decrease in cash and cash equivalents		**(166,624)**	**(15,370)**
Cash and cash equivalents at 1 January		255,159	276,069
Effect of movements in exchange rates on cash and cash equivalents		5,048	(5,540)
Cash and cash equivalents at 31 December	11	**93,583**	**255,159**

*The Fund has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 5.

The separate statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 44.

1. Reporting entity

(a) Business environment

The Partnership Fund's ("the Fund") operations are mainly located in Georgia. Consequently, the Fund is exposed to the economic and financial markets of Georgia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The separate financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the separate financial position of the Fund. The future business environment may differ from management's assessment.

(b) Organisation and operations

The Partnership Fund JSC is a joint stock company domiciled in Georgia.

The Fund was established on 28 June 2011 as a wholly state-owned enterprise based on the "Law of Georgia on Partnership Fund JSC". The Fund is a specialised public sector entity established by the State of Georgia, governed by the Supervisory Board chaired by the Prime Minister of Georgia. It was created to support investments in less developed industries of the Georgian economy and to create new employment opportunities in the country.

The Fund's principal activity is to provide equity and debt financing, and guarantees to private and public sector companies operating in Georgia with priority for projects in the energy, agriculture, manufacturing and real estate sectors. The main sources of income are expected to come from dividends and guarantee fees.

The Fund obtained control over the significant subsidiaries following the decrees of the Government of Georgia dated 30 July 2012 and 14 August 2012, under which the 100% interests in Georgian State Electrosystem JSC, Electricity System Commercial Operator JSC and the remaining shares in former associates Georgian Oil and Gas Corporation JSC and Georgian Railway JSC were contributed by the Government of Georgia to the capital of the Fund.

The Fund's registered office is 15 Queen Tamar Avenue, 0112, Tbilisi, Georgia and the Fund's registration number is #404404550.

The Fund is wholly owned by the State of Georgia represented by the Government of Georgia (the "Parent", "Owner"). Related party transactions are detailed in note 17.

(c) Fund's portfolio

As at 31 December 2018 and 2017 the Fund has direct and indirect interests in the following entities:

Name	Country of incorporation and operation	2018 Ownership/ voting	2017 Ownership/ voting	Principal activities
Georgian Oil and Gas Corporation JSC and its subsidiaries				
Georgian Oil and Gas Corporation JSC	Georgia	100%	100%	Oil and gas sale, extraction and exploration and rent of pipelines
Gardabani TPP LLC	Georgia	100%	100%	Operation of a combined cycle power plant (CCPP)
Gardabani 2 TPP LLC	Georgia	100%	100%	Operation of a combined cycle power plant (CCPP)
GOGC Trading SA	Switzerland	100%	100%	Trade of crude oil, petroleum products, petrochemicals and other commodities
Georgian Railway JSC and its subsidiaries				
Georgian Railway JSC	Georgia	100%	100%	Railroad transportation
GR Property Management LLC (former Railway Property Management LLC)	Georgia	100%	100%	Property Management and development

Name	Country of incorporation and operation	2018 Ownership/ voting	2017 Ownership/ voting	Principal activities
GR Logistics and Terminals LLC (former Trans Caucasus Terminals LLC)	Georgia	100%	100%	Container transportation
Georgian Railway Construction JSC	Georgia	100%	100%	Construction and other projects
Borjomi Bakuriani Railway LLC	Georgia	100%	100%	Passenger transportation
Georgia Transit LLC	Georgia	100%	100%	Transportation services
GR Transit LLC (former Georgian Transit LLC)	Georgia	100%	100%	Transportation services
GR Transit Line LLC	Georgia	100%	100%	Transportation services
GR Trans Shipment LLC	Georgia	100%	100%	Transportation services
Georgian State Electrosystem JSC and its subsidiaries				
Georgian State Electrosystem JSC	Georgia	100%	100%	Electricity dispatching and transmission
EnergoTrans LLC	Georgia	100%	100%	Electricity transmission
Karcal Energy JSC	Turkey	100%	100%	Electricity transmission
Electricity System Commercial Operator JSC	Georgia	100%	100%	Sale and purchase of electricity
Nenskra JSC	Georgia	-	100%	Construction and operation of a hydro-power plant
Project LLC	Georgia	100%	100%	Manufacture of spare parts for airplanes
Tbilisi Logistics Center LLC and its subsidiaries				
Tbilisi Logistics Center LLC	Georgia	100%	100%	Food services
Fruit and Vegetable Export Company LLC	Georgia	100%	100%	Export of fruit and vegetables
Georgian Product LLC	Georgia	100%	100%	Tourism development
Black Sea Port LLC	Georgia	100%	100%	Construction and operation of a port
Lagodekhi Trading Company LLC	Georgia	100%	100%	Construction and leasing out of a shopping mall in Lagodekhi
Panex JSC	Georgia	49%	49%	Building materials` industry
Telasi JSC	Georgia	24.53%	24.53%	Purchase and distribution of electric power to industrial and residential customers in Tbilisi
Clinics Development Company LLC and its subsidiaries				
Clinics Development Company LLC	Georgia	100%	100%	Management of healthcare provider subsidiaries
Tbilisi Children's Infection Clinical Hospital LLC	Georgia	100%	100%	Healthcare services
Universal Medical Center LLC	Georgia	100%	100%	Healthcare services
Nikoloz Kipshidze Central University Clinic LLC	Georgia	100%	100%	Healthcare services
Aerostructure Technologies Cyclone JSC	Georgia	66%	66%	Manufacture of spare parts for airplanes
Vanric Agro JSC	Georgia	49%	49%	Export of fruit
Rukhi Trading Center LLC	Georgia	100%	100%	Construction and leasing out of a shopping mall
Start-up Georgia LLC	Georgia	100%	100%	Venture capital
Imereti Greenery LLC	Georgia	46.34%	46.34%	Agriculture/farming
Caucasus Clean Energy I, LLP	United Kingdom	10%	10%	Investment fund
Georgian Industrial and Regional Development Company LLC	Georgia	100%	100%	Investment fund, providing investments in regional developments in Georgia
Likani Residence LLC	Georgia	100%	100%	Renovation of Romanov Palace in Likani
Global Brand LLC	Georgia	100%	100%	Wine export to USA
Infrastructure Development Partnership Company LLC	Georgia	100%	100%	Providing investments in Anaklia Port Project
Tsinandali Estates LLC	Georgia	45.51%	45.51%	Hotel and spa resort in village Tsinandali
Gazelle Fund LP	Canada	29.10%	29.10%	International investment company represented in Georgia and Armenia
Lopota LLC	Georgia	-	37.78%	Hotel and spa resort near Lopota lake
Ytong Caucasus LLC	Georgia	28.9%	28.9%	Manufacturing of construction materials
Partnership Fund - Green Development LLC and its subsidiaries				
Partnership Fund - Green Development LLC	Georgia	100%	100%	Real estate development
Gino Green City Corporation LLC	Georgia	49%	49%	Real estate development
East West Bridge LLC	Georgia	100%	100%	Ownership of investment fund
Nenskra Hydro JSC	Georgia	6.99%	-	Development, construction and operation of hydroelectric power plant in Svaneti, Georgia
Caucasian SUS Heritage LLC	Georgia	49.90%	-	Hog farm
KMG Service Georgia LLC and its subsidiary	Georgia	100%	-	Operation of a hotel
Borjomi Likani International JSC	Georgia	100%	50%	Construction and operation of a hotel
Georgian Natural Products LLC	Belarus	100%	-	Export of wine and agricultural products

All the Fund's significant subsidiaries and equity accounted investees are Georgian joint stock and limited liability companies as defined in the "Law of Georgia on Entrepreneurs".

2. Basis of accounting

Statement of compliance

These separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The separate financial statements have been prepared in addition to the consolidated financial statements approved by management on 31 December 2019 and in accordance with the Law of Georgia on Accounting, Reporting and Auditing of Financial Statements issued on 24 June 2016.

This is the first set of the Fund's annual separate financial statements in which IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* have been applied.

Changes to significant accounting policies are described in note 5.

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Fund's functional currency and the currency in which these separate financial statements are presented. All financial information presented in GEL has been rounded to the nearest thousands, except when otherwise indicated.

4. Use of estimates and judgments

The preparation of separate financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the separate financial statements is included in the following notes:

- Note 15(c)(ii) – impairment of loans receivable;
- Note 9 – impairment of investments in subsidiaries;
- Note 9 – acquisition of Borjomi Likani International JSC;
- Note 9 – assessment of control over Georgian State Electrosystem JSC.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 9 – impairment of investments in subsidiaries.
- Note 15(c) – measurement of ECL allowance for financial assets.

Measurement of fair values

A number of the Fund's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Fund uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

– *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
– *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
– *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Fund recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the fair value measurement of financial assets and liabilities is included in note 15(a) – fair values of financial assets and liabilities.

5. Changes in significant accounting policies

The Fund has initially applied IFRS 15 (see (A)) and IFRS 9 (see (B)) from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Fund's separate financial statements.

Due to the transition methods chosen by the Fund in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

The effect of initially applying these standards is mainly attributed to an increase in impairment losses recognised on financial assets (see B(ii)).

A. IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Fund has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As the Fund's revenue comprises only from investment income which is out of scope of IFRS 15 the transition did not have an effect on the equity of the Fund at 1 January 2018.

B. IFRS 9 *Financial Instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement.*

As a result of the adoption of IFRS 9, the Fund has adopted consequential amendments to IAS 1 *Presentation of Financial Statements,* which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Fund's approach was to include the impairment of financial assets in 'finance costs'. However, the Fund had no impairment losses recognised under IAS 39 in the separate statement of profit or loss and OCI for the year ended 31 December 2017, accordingly, there was no need of reclassification in the separate statement of profit or loss and OCI for the year ended 31 December 2017. The Fund separately presented impairment loss on loans receivable amounted to GEL 14,415 thousand in the separate statement of profit or loss and OCI in year 2018.

There was no impact of transition to IFRS 9 on accumulated deficit as at 1 January 2018.

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

For an explanation of how the Fund classifies and measures financial instruments, treats modifications and accounts for related gains and losses under IFRS 9, see note 19 (k).

Trade and other receivables, loans receivable and cash and cash equivalents that were classified as loans and receivables under IAS 39 are now classified at amortised cost.

The adoption of IFRS 9 has not had a significant effect on the Fund’s accounting policies related to financial liabilities.

(ii) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Fund has determined that the application of IFRS 9’s impairment requirements at 1 January 2018 results in no additional allowance for impairment.

Additional information about how the Fund measures the allowance for impairment is described in note 19 (m) (i).

(iii) Transition

The Fund has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have not been restated. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

6. Income from dividends

’000 GEL	**2018**	**2017**
Georgian Oil and Gas Corporation JSC	77,142	27,313
Electricity System Commercial Operator JSC	3,235	24
Income from dividends	**80,377**	**27,337**

7. Finance income and finance costs

’000 GEL	**2018**	**2017**
Recognised in profit or loss		
Interest income under the effective interest method	10,714	14,967
Net foreign exchange gain	-	4,358
Finance income	**10,714**	**19,325**
Interest expense on loans and borrowings	(31,753)	(32,282)
Net foreign exchange loss	(2,118)	-
Finance costs	**(33,871)**	**(32,282)**
Net finance costs recognised in profit or loss	**(23,157)**	**(12,957)**

8. Property, plant and equipment

’000 GEL	**Lands**	**Buildings**	**Other**	**Total**
Cost or deemed cost				
Balance at 1 January 2017 (unaudited)	108,227	17,795	1,523	127,545
Additions	13,689	-	535	14,224
Disposals	(111,650)	-	(370)	(112,020)
Balance at 31 December 2017	**10,266**	**17,795**	**1,688**	**29,749**
Balance at 1 January 2018	10,266	17,795	1,688	29,749
Additions	24,342	6,377	2,412	33,131
Disposals	(5,636)	-	(2,323)	(7,959)
Balance at 31 December 2018	**28,972**	**24,172**	**1,777**	**54,921**
Depreciation and impairment losses				
Balance at 1 January 2017 (unaudited)	-	(5)	(917)	(922)
Depreciation for the year	-	(354)	(300)	(654)
Balance at 31 December 2017	**-**	**(359)**	**(1,217)**	**(1,576)**
Balance at 1 January 2018	-	(359)	(1,217)	(1,576)
Depreciation for the year	-	(453)	(261)	(714)
Balance at 31 December 2018	**-**	**(812)**	**(1,478)**	**(2,290)**
Carrying amounts				
At 1 January 2017 (unaudited)	108,227	17,790	606	126,623
At 31 December 2017	**10,266**	**17,436**	**471**	**28,173**
At 31 December 2018	**28,972**	**23,360**	**299**	**52,631**

(a) Capital contributions:

The Government of Georgia transfers certain property, plant and equipment to the Fund as a capital contribution. In 2018 and 2017 the capital contributions comprise the fair value of the assets of GEL 5,895 thousand and GEL 14,204 thousand, respectively.

(b) Additions:

Additions in 2018 comprise fair value of land plots transferred to the Fund amounted to GEL 18,677 acquired as a result of acquisition of a subsidiary - KMG Service Georgia LLC (see note 9 (b)).

(c) Disposals:

Disposals in 2018 comprise contribution of property, plant and equipment by the Fund to the share capital of its subsidiaries of GEL 5,895 thousand (2017: GEL 112,020 thousand).

9. Investments in subsidiaries

Investments in subsidiaries as at 31 December 2018 and 31 December 2017 are presented as follows:

Subsidiary	Ownership 2018	Ownership 2017	Business activity	Balance as at 31.12.2017	Contribution	Withdrawal	Impairment	Balance as at 31.12.2018
JSC Georgian Railway	100%	100%	Transportation	1,244,848	2,495	-	(718,127)	529,216
JSC Georgian Oil and Gas Corporation	100%	100%	Trading of oil and gas, pipe rentals	543,339	1,679	-	-	545,018
LTD Gardabani TPP	100%	100%	Operation of Thermal Power Plant	85,617	-	-	-	85,617
JSC Georgian State Electrosystem	100%	100%	Operation of thermal Power Plant	-	3,625	-	(3,625)	-
JSC Electricity System Commercial Operator	100%	100%	Transportation of electricity	4,461	-	-	-	4,461
LLC Partnership Fund Green Development	100%	0%	Real estate development	-	63,695	-	-	63,695
Nenskra JSC	0%	100%	Operation of Hydro power plant	23,743	10	(23,753)	-	-
Tbilisi Logistics Center LLC	100%	100%	Food services	-	150	(33)	(117)	-
Black Sea Port LLC	100%	100%	Construction and operation of port	-	-	-	-	-
Lagodekhi Trading Company LLC	100%	100%	Construction and leasing out of a shopping mall	278	7	(7)	-	278
Rukhi Trading Center LLC	100%	100%	Construction and leasing out of a shopping mall	-	8	-	(8)	-
Aerostructure Technologies Cyclone JSC	66%	66%	Manufacture of spare parts for airplanes	93,246	-	-	-	93,246
Start-up Georgia LLC	100%	100%	Venture capital	-	911	-	(911)	-
Georgian Industrial and Regional Development Company LLC	100%	100%	Investment fund, providing investments in regional developments in Georgia	484	963	-	-	1,447
Likani Residence LLC	100%	100%	Renovation of Romanov Palace in Likani	543	772	-	-	1,315
Global Brand LLC	100%	100%	Wine export to USA	1,545	2,455	-	-	4,000
Clinics Development Company LLC	100%	100%	Management of healthcare provider subsidiaries	135,162	3,226	-	-	138,388
Georgian Natural Products LLC	100%	0%	Alcohol export	-	143	-	-	143
KMG Service Georgia LLC	100%	0%	Operation of a hotel	-	13,278	(5)	-	13,273
Total				**2,133,266**	**93,417**	**(23,798)**	**(722,788)**	**1,480,097**

Investments in subsidiaries presented in note 1 not disclosed above are dormant entities that do not carry out any kind of business activities and do not generate any form of revenue.

(a) Significant subsidiaries

Georgian Railway JSC was established as a state-owned enterprise in December 1998 by the Decree of the President of Georgia # 929 as an entity engaged in the provision of railway transportation services in Georgia. The principal activity of Georgian Railway JSC is the operation of a nationwide railway system providing freight and passenger transportation services, maintenance and development of railway infrastructure and construction of railway lines within Georgia.

At 31 December 2018, the management identified an indicator that the investment in Georgian Railway JSC may be impaired following the impairment of property, plant and equipment in Georgian Railway JSC due to significant decline in the volumes transported (from 5,899 million metric-ton per kilometer of cargo in 2012 to 2,747 million metric-ton per kilometer of cargo in 2018) and revenue from freight transportation (from GEL 350,749 thousand in 2012 to GEL 241,572 thousand in 2018). The investment was determined to be equal to the values comprising 100% of Georgian Railway JSC's equity balance as stated in the IFRS consolidated financial statements of Georgian Railway JSC for the year ended 31 December 2018. The equity balance of Georgian Railway JSC's amounted to GEL 529,216 thousand as at 31 December 2018. As a result, the Fund recognized an impairment loss of GEL 718,127 thousand in 2018.

Georgian Oil and Gas Corporation JSC was established as a 100% state-owned enterprise by the order of the Ministry of Economy of Georgia on 21 March 2006, on the basis of three Georgian state-owned companies: Georgian International Oil Corporation JSC, Georgian Gas International Corporation JSC and Teleti Oil Company JSC. The principal activities of Georgian Oil and Gas Corporation JSC are the importation and sale of natural gas, the rental of gas and oil pipelines, oil and gas exploration and extraction in the territory of Georgia. In December 2006 Georgian Oil and Gas Corporation JSC was granted the status of "National Oil Company" by Presidential decree number 736 and it acts on behalf of the State of Georgia, receives and sells the State's share of extracted oil and gas produced by contractors in the territory of Georgia in accordance with the "Law of Georgia on Oil and Gas" and production sharing agreements signed between the State and the contractors. In October 2013 a new subsidiary, Gardabani TPP LLC, was created by Georgian Oil and Gas Corporation JSC and Partnership Fund JSC with 51% and 49% interest, respectively. The share capital was defined at USD 100,000 thousand. The paid in charter capital as at 31 December 2018 amounted to GEL 175,185 thousand (2017: GEL 175,185 thousand). The subsidiary was created for the construction and operation of Gardabani Combined Cycle Power Plant (CCPP). The construction works were completed in July 2015. The Gardabani CCPP began generating revenue from September 2015.

Georgian State Electrosystem JSC was established under the laws of Georgia on 12 November 2002 by the means of the merger of Electrogadatsema JSC and Electrodispetcherizatsia-2000 LLC and is their legal successor in title. The major subsidiary of Georgian State Electrosysem JSC is EnergoTrans LLC, an entity established as a state-owned enterprise in 2002. The principal activities of Georgian State Electrosystem JSC and its subsidiaries are electricity transmission and dispatching over the entire territory of Georgia that are regulated by the law on Electricity and Natural Gas on the basis of the licenses obtained from the Georgian National Energy and Water Supply Regulatory Commission. EnergoTrans LLC owns the 500kV Vardzia and Zekari power transmission lines and the 400kV Meskheti interconnection line with Turkey constructed as part of the "Black Sea Transmission Network Project" (BSTN). The BSTN project was completed by the end of 2013. The new lines provide additional security to Georgia's transmission network, by adding a second west-east 500kV link, and create energy export capacity to Turkey. Due to financial difficulties in the past, Georgian State Electrosystem JSC is currently under a rehabilitation process managed by a Rehabilitation Manager in accordance with a rehabilitation plan. In assessing control over Georgian State Electrosystem JSC, management has considered, among other things, its ability to terminate the rehabilitation process and remove the rehabilitation manager by way of repayment of the debt.

As at 31 December 2018 the investment balances in Georgian State Electrosystem LLC is impaired in full. The investment was determined to be equal to the values comprising 100% of Georgian State Electrosystem LLC's equity balance as stated in the IFRS consolidated financial statements of Georgian State Electrosystem LLC for the years ended 31 December 2018 and 2017. The equity balance of Georgian State Electrosystem LLC became negative in the year ended 31 December 2017 resulting in the investment in the subsidiary becoming nil. As at 31 December 2018, the main impairment indicator identified by Georgian State Electrosystem LLC management was the impairment of the property and equipment of its major subsidiary EnergoTrans LLC, due to the fact, that in 2018 the Energotrans LLC's net operating cash inflows were lower than projected, which was mainly driven by the shortfall from budgeted cash flows from the transit of electricity. In 2018 an impairment loss of GEL 3,625 thousand was recognized in relation to the contributions made by the Fund in the subsidiary during the year.

Electricity System Commercial Operator JSC was established in Georgia on 1 September 2006 with the primary objective to sell/purchase balancing electricity and guaranteed capacity, import and export electricity and facilitate electricity sale-purchase in Georgia.

(b) Less significant subsidiaries

In March 2015 a new subsidiary, Aerostructure Technologies Cyclone JSC, was established in Georgia by the Fund, Project LLC (under 100% ownership of the Fund) and Elbit Systems - Cyclone Ltd, with 33.33%, 33.33%, and 33.34% interest, respectively. The parties agreed to incorporate the subsidiary with the authorized share capital of USD 60,000 thousand.

In accordance with the shareholders agreement, unanimous agreement is required for certain decisions. Management has concluded that the Fund has control over the subsidiary because the Fund is exposed to (has rights to) variable returns from its involvement with the subsidiary, and has the ability to affect those returns through its power over the subsidiary. The conclusion is based on the percentage of the ownership interest and the significance of decisions defined in shareholders' agreement of the subsidiary for which only a simple majority of votes is required.

The subsidiary was created for the purpose to engage in the development, production, sale and support of composite aero-structure products for the commercial (civil) market.

At 31 December 2018 management identified an indicator that the investment in Aerostructure Technologies Cyclone JSC may be impaired, due to the fact that the company has not started operations, the project is still in the development phase and does not generate revenue. The recoverable amount of the investment in the subsidiary was based on its value in use, determined by discounting estimated future cash flows to be generated from the aforementioned investment. The recoverable amount of the investment in the subsidiary was determined to be higher than its carrying amount and no impairment loss was recognized as at 31 December 2018.

The following main key assumptions are used in the estimation of the recoverable amount of the investment in Aerostructure Technologies Cyclone JSC:

- Cash flows are projected based on actual operating results and cash flows according to the business plan for a period up to 2023, with the further calculation of the terminal value. The production and sale of the produced aero-structure products is commenced in 2019. Management has determined that it is justified to use cash flow projections for a period of 5 years since the management believes that the 5 year period after Aerostructure Technologies Cyclone JSC starts production and sales will allow cash flows to stabilize. The projections are prepared in real terms;

- An after-tax real discount rate of 13.59% is applied in determining the recoverable amount of the investment in Aerostructure Technologies Cyclone JSC. The discount rate reflects the required rate of return for the cash flows on the invested capital of similar companies denominated in

USD. A long-term growth rate following the period covered by the business plan of 5 years has been determined by the management as nil.

- Budgeted earnings before interest tax, depreciation and amortization ("EBITDA") was estimated based on the actual results of the existing operations, increasing as a result of expected revenue generation started from 2019.

The key assumptions used to determine the value in use to which the calculation is most sensitive include:

- Increase of after-tax real discount rate by 1 percentage point would not have resulted in any impairment, however such a change would have reduced the recoverable amount by GEL 14,545 thousand.

At 31 December 2017 and 2016 the management identified indicators that the investments in the following subsidiaries: Tbilisi Logistics Center LLC, Black Sea Port LLC, Rukhi Trading Center LLC and Start-up Georgia LLC may be impaired due to their negative EBITDA and a significant decline in budgeted net cash flows. The recoverable amounts of the investment in the aforementioned subsidiaries were determined to be nil.

As a result an impairment loss of GEL 4,266 thousand was recognized in 2016 to bring the cost of the investments down to nil. In 2018 an impairment loss of GEL 1,036 thousand (2017: GEL 2,820 thousand) was recognized in relation with the contributions made by Fund in the named subsidiaries during the year.

There was no indicator of reversal of previously recognized impairment loss of investments in the above mentioned subsidiaries identified as at 31 December 2018.

In June 2018 the Fund acquired 100% interest in KMG Service Georgia LLC. The latter has 50% interest in Borjomi Likani International JSC. Borjomi Likani International JSC was established by Partnership Fund JSC and KMG Group (represented by Kazmunaygas Service LLP and KMG Service Georgia LLC), with the aim to construct a high-class hotel at the Likani resort to be operated by an internationally recognized hotel brand. The hotel opened in 2015. Before the acquisition the Fund possessed 50% in Borjomi Likani International JSC (the Hotel) and investment in Borjomi Likani International JSC was classified as a joint venture as at 31 December 2017.

As a result of the acquisition investment in subsidiary increased by GEL 13,278 thousand as a sum of fair value of acquired 50% interest amounted to GEL 6,620 thousand (as a difference between total cash consideration paid GEL 25,297 thousand and fair value of land plots transferred to Partnership Fund JSC amounted to GEL 18,677 thousand) and transfer of previously held equity interest in Borjomi Likani International JSC from equity accounted investees amounted to GEL 6,658 thousand.

In 2018, in exchange for 12,625,695 ordinary shares (6.99% of total shares) of Nenskra Hydro JSC, the Fund disposed 100% equity interest in Nenskra JSC. Contributions made by the Fund include tangible and intangible assets developed at early stages of the Nenskra HPP project, fair values of which has been determined by independent appraiser in January 2018. Owner of majority shares of Nenskra Hydro JSC is Korea Water Resources Corporation (the "K-water"), a company established and operating in the Republic of Korea. K-water is established and ultimately controlled by the Government of the Republic of Korea.

As a result of the transaction under discussion "Investments in equity accounted investees" amounted to GEL 31,516 thousand was recognized (see note 10).

As described in note 13(b) in 2018 the Government of Georgia contributed 116 vacant land plots to the Fund's equity. The land plots (freehold) were located nearby Tbilisi Sea and Olympic Village in Tbilisi. Total area of the subject property was 2,693,344 m2. At initial recognition, management recognized the land plots at GEL 63,695 thousand, which was calculated based on normative prices per sq.m as defined by Tbilisi City Municipality. Management estimated that the GEL 63,695 thousand were close to the land plots' fair values as of the date of the capital contribution. The land plots were located in a 'recreation zone' as defined by Tbilisi City Municipality, which restricted the commercial use and free sale of the land plots in a free market; as well as, the normative prices defined by the Municipality were the lowest possible value of the land plots in the territory of the 'recreation zone'.

Following the capital contribution described in previous paragraph, in 2018 the Fund contributed the same 116 vacant land plots in its 100% subsidiary: Partnership Fund Green Development LLC (the property was recognized as Investment Property at Fund's separate statement of financial position).

Out of the contributions into Investments in subsidiaries of GEL 93,417 thousand, GEL 5,895 thousand was contributed in the form of property, plant and equipment (note 8 (c)), GEL 63,695 thousand in the form of Investment property (see above), GEL 17,169 thousand in cash and GEL 6,658 thousand represents transfer from "Investments in equity accounted investees" (related to Borjomi Likani International JSC (see above).

Of the withdrawals from Investments in subsidiaries of GEL 23,798 thousand, GEL 23,753 thousand is related to disposal of 100% equity interest in Nenskra JSC – transfer from "Investments in subsidiaries" to "Investments in equity accounted investees" (see above).

10. Investments in equity accounted investees

'000 GEL	**2018**	**2017**
Balance at 1 January	70,498	57,526
Contributions to associate	65,938	15,994
Company's share of profit/(loss) of equity accounted investees (net of income tax) recognized in profit or loss	(500)	3,995
Dividends received	-	(4,906)
Decrease of the investment in associates/jointly controlled entity	(23,210)	(2,111)
Balance at 31 December	**112,726**	**70,498**

None of the Fund's equity accounted investees are publicly listed entities and consequently do not have published price quotations.

Associate	**Ownership 2018**	**Ownership 2017**	**Business activity**	**Balance as at 31.12.2017**	**Contribution**	**Profit (loss) attributable to the Fund**	**Withdrawal**	**Balance as at 31.12.2018**
Telasi JSC	24.5%	24.5%	Purchase and distribution of electric power to industrial and residential customers in Tbilisi	37,640	-	6,686	-	44,326
Nenskra Hydro JSC	6.99%	-	Development, construction and operation of hydroelectric power plant in Svaneti, Georgia	-	31,516	(1,524)	-	29,992
Borjomi Likani International JSC	0%	50%	Construction and operation of a hotel	7,798	-	(1,140)	(6,658)	-
Lopota LLC	0%	37.8%	Hotel and spa resort in Lopota Lake	7,585	8,206	149	(15,940)	-
Tsinandali Estates	45.5%	45.5%	Hotel and spa resort in village Tsinandali	5,764	18,754	(3,642)	-	20,876
Panex JSC	49%	49%	Building materials` industry	3,733	-	590	-	4,323
Vanric Agro LLC	49%	49%	Export of fruit	3,265	-	-	-	3,265
Imereti Greenery LLC	37.7%	37.7%	Agriculture/farming	2,412	-	(976)	(612)	824
Gazzele Fund LP	29.1%	29.1%	International investment company represented in Georgia	1,653	3,991	(644)	-	5,000
Caucasus Clean Energy I, LLP	10%	10%	Investment fund	648	2,919	-	-	3,567
Caucasian SUS Heritage LLC	49.9%	49.9%	Hog farm	-	552	-	-	552
				70,498	**65,938**	**(500)**	**(23,210)**	**112,726**

Investments in equity accounted investees presented in note 1 not disclosed above are dormant entities that do not carry out any kind of business activities and do not generate any form of revenue.

Despite the fact that the Fund held less than 20 percent of the voting power in Nenskra Hydro JSC (the Entity), the management of the Fund concluded that due to meaningful representation on the governing body of the Entity (the Supervisory Board of the Entity is composed of 6 members, out of which four members are nominated by K-water and two members by the Fund) the Fund had the power to participate in the Entity`s financial and operating policy decisions and thus had the ability to exercise significant influence over the Entity as at 31 December 2018.

Out of decrease of investment in associates during year 2018 of GEL 6,658 thousand represents transfer of investment in equity accounted investee in Borjomi Likani International JSC to the investment in subsidiary (KMG Service Georgia LLC), respectively (see note 9 (b)).

(a) Joint venture

As at 31 December 2017, Borjomi Likani International JSC was the only material joint arrangement in which the Fund participated. It was established in 2011 by the Fund and KMG Group (represented by Kazmunaygas Service LLP and KMG Service Georgia LLC), with the aim to construct a high-class hotel at the Likani resort to be operated by an internationally recognized hotel brand. The hotel opened in 2015. The Fund had rights to the net assets of Borjomi Likani International JSC. Accordingly, the Fund classified its interest in Borjomi Likani International JSC as a joint venture as at 31 December 2017.

In 2018, the Fund acquired 100% shares of KMG Service Geogia LLC, the entity that owned 50% share of Borjomi Likani International JSC. Therefore, the Fund became the sole shareholder of Borjomi Likani International JSC, see note 9 (b).

The following table summarises the financial information of Borjomi Likani International JSC as included in its own financial statements as at 31 December 2017. The table also reconciles the summarised financial information to the carrying amount of the Fund's interest in Borjomi Likani International JSC.

'000 GEL	**Year Ended 2017**
Percentage ownership interest	**50%**
Non-current assets	59,763
Current assets (including cash and cash equivalents – 2017: GEL 5,506 thousand)	7,183
Non-current liabilities	(26,415)
Current liabilities	(19,659)
Net assets (100%)	20,872
Fund's share of net assets (50%)	**10,436**
Revenue	12,099
Loss and total comprehensive loss (100%)	(4,500)
Fund's share of loss and total comprehensive loss	**(2,250)**

(b) Associates

At 31 December 2018 the Fund has interest in eleven associates – Vanric Agro LLC, Telasi JSC, Panex JSC, Imereti Greenery LLC, Tsinantali Estates LLC, Gazelle Fund LP, Ytong Caucasus LLC, Caucasian SUS Heritage LLC, Gino Green City Corporation LLC, Nenskra Hydro JSC and Caucasus Clean Energy I, LLP (2017: Vanric Agro LLC, Telasi JSC, Panex JSC, Imereti Greenery LLC, Tsinantali Estates LLC, Gazelle Fund LP, Lopota LLC, Ytong Caucasus LLC, Gino Green City Corporation LLC, and Caucasus Clean Energy I, LLP). Telasi is a significant associate of the Fund.

24.53% of the shares of Telasi JSC were transferred to the Fund as a capital contribution by the Government of Georgia on 30 July 2012. The investment in associate was recognised at the Fund's share of net assets of Telasi JSC as at the transfer date of GEL 27,548 thousand. Telasi JSC is involved in the purchase and distribution of electric power to industrial and residential customers in Tbilisi.

The following table summarises the financial information of Telasi JSC as included in its own financial statements. The table also reconciles the summarised financial information to the carrying amount of the Fund's interest in Telasi JSC.

'000 GEL	**2018**	**Restated 2017**
Percentage ownership interest	**24.53%**	**24.53%**
Non-current assets	265,407	238,687
Current assets	75,279	82,195
Non-current liabilities	(41,121)	(44,238)
Current liabilities	(118,928)	(123,261)
Net assets (100%)	180,637	153,383
Fund's share of net assets (24.53%)	**44,310**	**37,625**
Revenue	461,969	420,115
Profit and total comprehensive income (100%)	27,254	22,124
Fund's share of profit and total comprehensive income	**6,686**	**5,427**

11. Loans receivable

'000 GEL	**2018**	**2017**
Non-current assets		
Loan receivable from the state controlled entity	34,013	6,081
Loan receivable from third party	1,241	500
Total non-current	**35,254**	**6,581**
Current assets		
Short term part of the loan receivable from the state controlled entity	7,977	1,661
Short term part of the loan receivable from the third party	258	-
Total current	**8,235**	**1,661**
	43,489	**8,242**

The Fund's exposure to credit and currency risks and impairment losses related to loans receivable are disclosed in note 15.

12. Cash and cash equivalents

'000 GEL	**2018**	**2017**
Bank balances	93,583	255,159
Cash and cash equivalents in the separate statement of financial position and the separate statement of cash flows	**93,583**	**255,159**

The Fund's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 15.

13. Equity

(a) Share capital

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Fund.

Following the decree of the Government of Georgia on 8 May 2012 the share capital of the Fund was determined as 100,000,000 ordinary shares with a par value of GEL 1.

(b) Owner contributions

During 2018, the Government of Georgia contributed land plots of GEL 69,301 thousand (out of which land plots of GEL 63,695 thousand was initially classified as Investment Property at Fund's separate statement of financial position, and later was invested in LLC Partnership Fund Green

Development, see note 9), cash of GEL 1,900 thousand and movable property of GEL 263 thousand (2017: the Government of Georgia contributed gas pipelines of GEL 7,421 thousand, land plots of GEL 313 thousand and inventories of GEL 334 thousand) in the form of an increase in the Fund's equity as 'Owner contributions'. In 2017 the Government also made a contribution to the Fund`s capital (through 'Owner contributions') of land plots of GEL 6,470 thousand and contributions in the form of cash of GEL 38,540 thousand.

(c) Distributions to the owner

In 2017 the Fund transferred land plots located in Anaklia, Zugdidi of GEL 10,301 thousand to a state controlled entity, National Agency of State Property. There was no capital distribution in year 2018.

14. Loans and borrowings

This note provides information about the contractual terms of the Fund's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Fund's exposure to interest rate, foreign currency and liquidity risks, see note 15.

'000 GEL	**2018**	**2017**
Non-current liabilities		
Unsecured loans from financial institutions	-	225,521
Unsecured loans from subsidiaries	34,205	30,147
	34,205	**255,668**
Current liabilities		
Current portion of unsecured loans from financial institutions	239,220	120,899
	239,220	**120,899**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2018		**31 December 2017**	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured loans							
Unsecured loan from Credit Suisse	USD	Libor+5.95%	On demand	239,220	239,220	346,420	346,420
Unsecured loans from subsidiaries:							
Georgian Railway JSC	USD	9.75%	2021	20,566	20,566	18,109	18,109
Georgian Oil and Gas Corporation JSC	USD	9.50%	2021	13,639	13,639	12,038	12,038
Total interest-bearing liabilities				**273,425**	**273,425**	**376,567**	**376,567**

During 2015, the Fund acquired a loan from an international bank, Credit Suisse, of USD 150,000 thousand, equivalent to GEL 360,705 thousand. The purpose of the loan was to refinance existing loan exposures.

In relation to the loan received from Credit Suisse, according to the facility agreement, the Fund should maintain a Debt Service Coverage Ratio greater than 1.2 and a Leverage ratio of Total Net Debt to Dividends less than 3.5. According to the agreement the proceeds of any permitted financial indebtedness advanced by a material subsidiary to the Fund and satisfying the subordination conditions can be included in Dividends for ratio calculations.

As at 31 December 2018 a financial covenant related to Debt Service Coverage Ratio on the Credit Suisse loan above was breached. As a result, the lender can request repayment on demand and the Fund has classified the loan as short-term borrowings. However, for the date of the approval of the separate financial statements by the management, Credit Suisse has not requested repayment of the above mentioned amount.

Management estimates that the carrying values of the unsecured loan from the financial institution and the unsecured loans from the Fund's subsidiaries are a reasonable approximation of their fair values.

(b) Reconciliation of movements of assets and liabilities to cash flows arising from financing activities

’000 GEL	Loans and borrowings 2018	Loans and borrowings 2017
Balance at 1 January	**376,567**	**422,256**
Proceeds from borrowings	-	10,883
Repayment of borrowings	(113,878)	(48,239)
Interest paid	(30,502)	(28,886)
Total changes from financing cash flows	**(144,380)**	**(66,242)**
Interest expense	31,753	32,282
The effect of changes in foreign exchange rates	9,485	(11,729)
	41,238	**20,553**
Balance at 31 December 2018	**273,425**	**376,567**

15. Fair values and risk management

(a) Fair values of financial assets and liabilities

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

The Fund has determined fair values of financial assets and liabilities using valuation techniques. The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The valuation technique used is the discounted cash flow model. Fair value of all financial assets and liabilities is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Management believes that the fair values of the Fund's financial assets and liabilities approximate their carrying amounts.

(b) Financial risk management

The Fund has exposure to the following risks from its use of financial instruments:

- credit risk (see 16 (c));
- liquidity risk (see 16 (d));
- market risk (see 16 (e)).

This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risk, and the Fund's management of capital. Further quantitative disclosures are included throughout these separate financial statements.

Risk management framework

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities. The Fund, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Supervisory Board of the Fund has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Supervisory Board oversees how management monitors compliance with the Fund' risk management policies and procedures and review the adequacy of the risk management framework in relation to the risks faced by the Fund.

(c) Credit risk

Credit risk is the risk of financial loss to the Fund if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Fund's loans receivable and cash and cash equivalents.

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was as follows:

	Note	**Carrying amount**	
'000 GEL		**2018**	**2017**
Loans receivable	11	43,489	8,242
Cash and cash equivalents	12	93,583	255,159
Dividends receivable		3,234	-
		140,306	**263,401**

Impairment losses on financial assets recognised in profit or loss were as follows.

'000 GEL	**2018**	**2017**
Impairment loss on loans receivable	(14,415)	-

(ii) Loans receivable

As at 31 December 2018 and 31 December 2017 the Fund has issued loans to the related parties. The loans are not secured.

Management believes that the Fund is exposed to a significant amount of credit risk relating to the related party loans as at 31 December 2018. Consequently, management assessed expected credit loss from loans receivable at GEL 14,415 thousand as at 31 December 2018. The most significant part of the named financial instrument (gross carrying value amounted to GEL 45,295 thousand) was classified as credit-impaired 'Stage 3' financial instruments.

Management has assessed impairment of loans based on individual characteristics of each legal entity. Each company has its own PD based on its financial performance and the future expectations of payments to be made.

The Fund allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about counterparties) and applying experienced credit judgment regarding customer behavior. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definitions from agencies.

An ECL rate is calculated for each counterparty based on delinquency status, external credit rating, current conditions of the counterparties and the Fund's view of economic conditions over the expected lives of the loans receivables and ways of its repayments.

Impairment losses

'000 GEL	**2018**
Gross carrying amount	57,904
Loss allowance	(14,415)
	43,489

Comparative information under IAS 39

An analysis of the credit quality of loan receivables as at 31 December 2017 is as follows:

'000 GEL	**2017**
Non-current (not past due)	6,581
Current (not past due)	1,661
	8,242

Loan receivables as at 31 December 2017 was neither past due, nor impaired.

Movements in the allowance for impairment in respect of loan receivables

The movement in the allowance for impairment in respect of loan receivables during the year was as follows. Comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39.

'000 GEL	**2018**	**2017**
Balance at 1 January under IAS 39	-	-
Adjustment on initial application of IFRS 9	-	-
Balance at 1 January under IFRS 9	-	-
Increase during the year	14,415	-
Balance at 31 December	**14,415**	**-**

(iii) Cash and cash equivalents

The Fund usually holds funds with banks with good credit ratings. As at 31 December 2018, approximately 99% (31 December 2017: 99%) of the bank balances are held with the largest Georgian banks with short-term default rating of B, rated by Fitch Ratings. None of the balances are overdue or impaired.

Impairment on cash and cash equivalents balances has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Fund considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

No impairment allowance was recognised on initial application of IFRS 9 and during 2018 by the Fund.

The Fund does not expect any counterparty to fail to meet its obligations.

(d) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. The Fund's liquidity management also involves monitoring the covenants embedded in the facility agreement.

To manage the liquidity requirements, the Fund makes short-term forecasts for cash flows based on estimated financial needs determined by the nature of operating activities. Typically the Fund ensures, that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

In addition, as at 31 December 2018 management assessed key triggers for the net current liability position of GEL 139,196 thousand (31 December 2017: net current asset of GEL 133,923 thousand) and net loss results of GEL 680,930 thousand (2017: net loss of GEL 450,170 thousand) of the Fund as follows:

- The net current liability position at year-end 2018 was due to a breach of loan covenant at the year end, resulted to all loan balance due to Credit Suisse to be reclassified as a current as at 31 December 2018 (note 14);
- The net loss results in 2018 and 2017 were mainly due to impairment recognized in investment in subsidiary (Georgian Railway JSC) of GEL 718,127 thousand and GEL 315,680 thousand in 2018 and 2017, respectively.

Based on above analysis and considering the expected dividend income from subsidiaries (mainly from JSC Georgian Oil and Gas Corporation (GOGC) – IFRS retained earning balance of GOGC was GEL 484,734 thousand as at 31 December 2018) management concluded that the Fund will not encounter difficulties in meeting its obligations associated with its financial liabilities for the foreseeable future.

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date, including estimated interest payments and excluding the impact of netting agreements.

31 December 2018	**Contractual cash flows**					
’000 GEL	**Carrying amount**	**Total**	**0-6 mths**	**6-12 mths**	**1-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities						
Unsecured loan from financial institution	239,220	239,220	239,220	-	-	-
Unsecured loan from subsidiaries	34,205	42,919	-	-	42,919	-
Other liabilities	5,407	5,407	5,407	-	-	-
	278,832	**287,546**	**244,627**	**-**	**42,919**	**-**

31 December 2017	**Contractual cash flows**					
’000 GEL	**Carrying amount**	**Total**	**0-6 mths**	**6-12 mths**	**1-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities						
Unsecured loan from financial institutions	346,420	393,592	-	140,403	253,189	-
Unsecured loan from subsidiaries	30,147	41,574	-	-	41,574	-
Other liabilities	2,882	2,882	2,882	-	-	-
	379,449	**438,048**	**2,882**	**140,403**	**294,763**	**-**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(e) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Fund does not apply hedge accounting in order to manage volatility in profit or loss.

(i) Currency risk

The Fund is exposed to currency risk on issued loans, cash and cash equivalents and borrowings that are denominated in a currency other than GEL. The currency in which these transactions primarily are denominated is U.S. Dollar (USD).

Exposure to currency risk

The Fund's exposure to foreign currency risk was as follows:

'000 GEL	**USD-denominated 2018**	**USD –denominated 2017**
Cash and cash equivalents	82,744	183,569
Loans receivable	43,489	8,242
Loans and borrowings	(273,425)	(376,567)
Net exposure	**(147,192)**	**(184,756)**

The following significant exchange rates have been applied during the year:

in GEL	**Average rate**		**Reporting date spot rate**	
	2018	**2017**	**2018**	**2017**
USD 1	2.5345	2.5086	2.6766	2.5922

Sensitivity analysis

A reasonably possible weakening of the GEL, as indicated below, against all other currencies at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below. There would be no direct impact on other comprehensive income or equity. The analysis assumes that all other variables, in particular interest rates, remain constant.

'000 GEL	**Profit or loss**
31 December 2018	
USD (10% weakening)	(14,719)
31 December 2017	
USD (10% weakening)	(18,476)

A strengthening of the GEL against the above currencies at 31 December would have had the equal but opposite effect on the above currencies on the amounts shown above, on the basis that all other variables remain constant.

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Fund's exposure should be to fixed or variable rates.

However, at the time of raising new loans or borrowings the Fund's management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Fund over the expected period until maturity.

Exposure to interest rate risk

At the reporting date the interest rate profile of the Fund's interest-bearing financial instruments was as follows:

'000 GEL	**Carrying amount**	
	2018	**2017**
Fixed rate instruments		
Financial assets	137,072	263,401
Financial liabilities	(34,205)	(30,147)
	102,867	**233,254**
Variable rate instruments		
Financial liabilities	(239,220)	(346,420)
	(239,220)	**(346,420)**

Fair value sensitivity analysis for fixed rate instruments

The Fund does not account for any fixed-rate financial instruments as fair value through profit or loss or fair value through other comprehensive income. Therefore a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

Cash flow sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss	
'000 GEL	**100 bp increase**	**100 bp decrease**
2018		
Variable rate instruments	(2,392)	2,392
Cash flow sensitivity	**(2,392)**	**2,392**
2017		
Variable rate instruments	(3,464)	3,464
Cash flow sensitivity	**(3,464)**	**3,464**

(f) Capital management

The Fund's objectives when managing capital are to safeguard the Fund's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Fund manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Fund may adjust the amount of investments made in subsidiaries and equity accounted investees, dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

Supervisory Board's policy is to maintain a strong capital base so as to maintain Parent, creditor and market confidence and to sustain future development of the business.

The Fund's debt to capital ratio at the end of the reporting period was as follows:

'000 GEL	**2018**	**2017**
Total liabilities	278,832	379,449
Less: cash and cash equivalents	(93,583)	(255,159)
Net debt	**185,249**	**124,290**
Total equity	**1,508,830**	**2,116,773**
Debt to capital ratio at 31 December	**0.12**	**0.06**

The Fund is a wholly state-owned enterprise and its operations are mostly funded by equity financing.

There were no changes in the Fund's approach to capital management during the year.

The Fund is not subject to externally imposed capital requirements.

16. Contingencies

(a) Insurance

The insurance industry in Georgia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Fund does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Fund property or relating to the Fund operations. Until the Fund obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Fund's operations and financial position.

(b) Litigations

In the ordinary course of business, the Fund is subject to legal actions, litigations and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

(c) Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these separate financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

17. Related parties

(a) Parent and ultimate controlling party

As at 31 December 2018 and 2017 the Fund is wholly owned by the Government of Georgia.

(b) Transactions with key management personnel

(i) Key management remuneration

Key management received the following remuneration during the year, which is included in wages and other employee benefits.

'000 GEL	**2018**	**2017**
Salaries and bonuses	**719**	**676**

(c) Transactions with Government related entities

The Fund transacts in its daily operations with a number of entities that are either controlled/ jointly controlled by or under significant influence of the Government of Georgia. The Fund has opted to apply the exemption in IAS 24 *Related Party Disclosures* that allows the presentation of reduced related party disclosures regarding transactions with government-related entities.

The significant transactions with entities controlled or significantly influenced by the State and balances for these transactions are disclosed below. Management estimates that the aggregate amounts of all other income and expenses and the related balances with government-related entities at the reporting dates are not significant.

(i) Loans

'000 GEL	**Transaction value**		**Outstanding balance as at 31 December**	
	2018	**2017**	**2018**	**2017**
Loans given:				
State controlled entity	47,917	-	41,990	7,742

				31 December 2018		**31 December 2017**	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Loans given to subsidiaries							
Borjomi Likani International JSC	USD	7%	2021	31,903	31,903	7,742	7,742
Aerostructure Technologies Cyclone JSC	USD	10.75%+6 months LIBOR	2023	10,087	10,087	-	-
				41,990	**41,990**	**7,742**	**7,742**

During 2018, interest income of GEL 2,337 thousand (2017: GEL 534 thousand) was recognised in profit and loss in respect of related party loans.

'000 GEL	**Transaction value**		**Outstanding balance as at 31 December**	
	2018	**2017**	**2018**	**2017**
Loans received:				
Subsidiaries	-	10,883	34,205	30,147

During 2018, interest expense of GEL 3,076 thousand (2017: GEL 2,018 thousand) was recognised in profit and loss in respect of related party loans.

18. Basis of measurement

The separate financial statements are prepared on the historical cost basis.

19. Significant accounting policies

(a) The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements, except for the adoption of IFRS 15 and IFRS 9 from 1 January 2018.

(b) Investment in subsidiaries

Subsidiaries are entities controlled by the Fund. The Fund controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The investments in subsidiaries are accounted at cost in the separate financial statements from the date that control effectively commences until the date that control effectively ceases.

Investments in subsidiaries are accounted at cost less impairment losses.

(c) Investments in associates and joint ventures (equity accounted investees)

The Fund's interests in equity-accounted investees comprise interest in associates and joint ventures.

Associates are those entities in which the Fund has significant influence, but not control or joint control over the financial and operating policies. Significant influence is presumed to exist when the Fund holds between 20% and 50% of the voting power of another entity. A joint venture is an arrangement in which the Fund has joint control, whereby the Fund has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method and are recognised initially at cost or at the Fund's share of the carrying value of the net assets of the investee recognised in the equity accounted investee's financial statements at the date of the acquisition if the acquisition is from an entity under common control. The cost of the investment includes transaction costs.

The separate financial statements include the Fund's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Fund, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Fund's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest including any long-term investments is reduced to zero and the recognition of further losses is discontinued, except to the extent that the Fund has an obligation or has made payments on behalf of the investee.

(i) Joint operations

A joint operation is an arrangement carried on by each venture using its own assets in pursuit of the joint operations. The separate financial statements include the assets that the Fund controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Fund incurs and its share of the income that it earns from the joint operation.

(d) Income from dividends

Dividend income is recognized when the Fund's right to receive the amount is established.

(e) Expenses

Expenses are recognized on an accrual basis in the accounting period in which the related services are provided.

(f) Finance income and costs

The Fund's finance income and finance costs include:

- interest income on bank deposits and loans receivable;
- interest expense on financial liabilities;
- impairment loss on other financial assets;
- the foreign currency gain or loss on financial assets and financial liabilities.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(g) Foreign currency transactions

Transactions in foreign currencies are translated to GEL at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to GEL at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in GEL at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss.

(h) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Fund has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(i) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective at a later date.

The new system of corporate income taxation does not imply exemption from Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings (DE) to mean profit distributed to shareholder as a dividend. However some other transactions are also considered as DE, for example non-arm's length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. The amount of tax payable on a dividend distribution is calculated as 15/85 of the amount of the net distribution.

Set of the tax payable on dividends declared and paid is available for the corporate income tax paid on the undistributed earnings in the years 2008-2016, if those earnings are distributed in 2017 or further years.

The Tax Code of Georgia provides for charging corporate income tax on certain transactions not related to the entity's economic activities, free of charge supplies and representative expenses over the allowed limit. The Company considers the taxation of such transaction as outside of the scope of IAS 12 *Income Taxes* and accounts for the tax on such items as taxes other than on income.

(j) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Property, plant and equipment contributed by the shareholder are initially measured at fair value. The cost of property, plant and equipment at the date of adopting IFRS, 1 January 2015, was determined by reference to its fair value at that date ("deemed cost").

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Fund, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Fund will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

- Buildings 15 - 50 years
- Other 2 - 10 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if appropriate.

(k) Financial instruments

(i) Recognition and initial measurement

Loan receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Fund becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Fund changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

Loans receivable and cash and cash are classified as measured at amortised cost.

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value. Call deposits represent term deposits with banks with maturities greater than three months from the acquisition date but for which the Fund has the unilateral right to withdraw the deposits within a few days of providing notification without incurring significant penalties or loss of interest.

These financial assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Before 1 January 2018, the Fund classified non-derivative financial assets into the following categories: loans and receivables and cash and cash equivalents. These were measured at amortised cost using the effective interest method.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Fund evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as ‘substantial modification’), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

The Fund performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Fund assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Fund analogizes to the guidance on the derecognition of financial liabilities.

The Fund concludes that the modification is substantial as a result of the following qualitative factors:

— change the currency of the financial asset;
— change in collateral or other credit enhancement;

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Fund recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities

The Fund derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Fund applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Fund recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms. The Fund treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

The Fund performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Fund concludes that the modification is substantial as a result of the following qualitative factors:

— change the currency of the financial liability;
— change in collateral or other credit enhancement;
— inclusion of conversion option;
— change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(iv) Derecognition

Financial assets

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Fund enters into transactions whereby it transfers assets recognised in its separate statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Fund derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Fund also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realised the asset and settle the liability simultaneously.

(l) Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Non-cash owner contributions, except for contributions of interests in associates and subsidiaries constituting a business, are recognised at fair value of the assets contributed, net of deferred tax, at the date of the contribution.

Non-cash distributions are recognized at the carrying amount of the assets distributed if those distributions are out of scope of IFRIC 17 *Distributions of Non-cash Assets to Owners*.

(m) Impairment

(i) Non-derivative financial assets - Policy applicable from 1 January 2018

The Fund recognises loss allowances for ECLs on financial assets measured at amortised cost.

The Fund measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

– debt securities that are determined to have low credit risk at the reporting date; and

– other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as ‘Stage 1’ financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as ‘Stage 2’ financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and ‘Stage 3’ financial instruments (if the financial instruments are credit-impaired).

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Fund considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Fund’s historical experience and informed credit assessment and including forward-looking information.

The Fund assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Fund considers a financial asset to be in default when:

– the borrower is unlikely to pay its credit obligations to the Fund in full, without recourse by the Fund to actions such as realizing security (if any is held); or
– the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Fund is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Fund expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Fund assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

– significant financial difficulty of the borrower or issuer;
– a breach of contract such as a default or being more than 90 days past due;
– the restructuring of a loan or advance by the Fund on terms that the Fund would not consider otherwise;
– it is probable that the borrower will enter bankruptcy or other financial reorganization; or
– the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the separate statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Fund has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Fund individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Fund expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Fund's procedures for recovery of amounts due.

(ii) Non-derivative financial assets – Policy applicable before 1 January 2018

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include:

- default or delinquency by a debtor,
- restructuring of an amount due to the Fund on terms that the Fund would not consider otherwise,
- indications that a debtor will enter bankruptcy,
- adverse changes in the payment status of borrowers in the Fund;
- economic conditions that correlate with defaults; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

Financial assets measured at amortised cost

The Fund considers evidence of impairment for these assets at both a specific asset and a collective level. All individually significant loans and receivables are assessed for specific impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Fund uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Fund considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

Equity accounted investees

An impairment loss in respect of an equity-accounted investee is calculated as the difference between its carrying amount after application of the equity method of accounting and its recoverable amount.

The recoverable amount of such investment is the greater of its value in use and its fair value less cost to sell. In determining the value in use of the investment the Fund estimates: (a) its share of the present value of the estimated future cash flows expected to be generated by the investee, including the cash flows from the operations of the investee and the proceeds on the ultimate disposal of the investment; or (b) the present value of the estimated future cash flows expected to arise from the dividends to be received from the investee and from its ultimate disposal depending on which available information with respect to each investee is more reliable. An impairment loss is reversed to the extent that the recoverable amount of the investment subsequently increases and the resulting carrying amount does not exceed the carrying amount that would have been determined, after application of the equity method, had no impairment loss previously been recognised.

An impairment loss is recognized in profit or loss, and reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

(iii) Non-financial assets

The carrying amounts of the Fund's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The Fund's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of assets in the CGU on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) Dividends

Dividends on ordinary shares are reflected as an appropriation of retained earnings in the period in which they are declared.

20. New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are effective for annual periods beginning after 1 January 2019 and have not been applied in preparing these financial statements. The Fund plans to adopt these pronouncements when they become effective.

(a) IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 is not expected to have a material impact on the Fund's financial statements in the period of initial application.

(i) Transition

The Fund plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Fund plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

(b) Other standards and interpretations

The following amended standards and interpretations are not expected to have a significant impact on the Fund's financial statements.

- IFRIC 23 *Uncertainty over Tax Treatments*;
- *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*;
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*;
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*;
- *Annual Improvements to IFRS Standards 2015–2017 Cycle* – various standards;
- *Amendments to References to Conceptual Framework in IFRS Standards*;
- *IFRS 17 Insurance Contracts;*
- *Definition of a Business (Amendments to IFRS 3);*
- *Definition of material (Amendments to IAS 1 and IAS 8);*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28);*
- *Interest rate Benchmark reform (Amendments to IFRS 9, IAS 39 and IFRS 7)*

21. Subsequent events

On 15 November 2019, Government of Georgia issued a decree N2353 confirming that the Group entity: Georgian Oil and Gas Corporation JSC will start works on refinancing its bonds in 2020, including a potential increase of the size of the Bond issuance up to 300 million USD.

The agreement on rental of pipelines between the Group entity: Georgian Oil and Gas Corporation JSC and another state owned entity outside the Group: Georgian Gas Transportation Company LLC (GGTC) is due for renewal from 1 January 2020. The parties have agreed that the rental will be renewed from 1 January 2020.

Construction of Gardabani II Combined-Cycle Thermal Power Plant has been completed in December 2019 and is operational (currently under testing regime).

During July-August of 2019 the Fund received dividends of GEL 60 million from its one of the significant subsidiaries - Georgian Oil and Gas Corporation JSC.